

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554**

In the Matter of)	
)	ET Docket No. 05-24
Requirements for Digital Television)	
Receiving Capability)	
)	

To: The Commission

COMMENTS OF PHILIPS ELECTRONICS NORTH AMERICA CORPORATION

I. INTRODUCTION

Philips Electronics North America Corporation (“Philips”) respectfully submits these Comments to address the Commission’s proposals in its *Further Notice of Proposed Rulemaking* in the above-captioned proceeding.¹

Although Philips is committing all available resources to meet the phased DTV tuner mandate deadlines previously established by the Commission, the proposed accelerated deadlines for 13”- 24” television receivers and other television products such as VCRs are not feasible from a design, development and manufacturing perspective. Acceleration of this last of the DTV tuner deadlines from July 1, 2007 to “no later than December 31, 2006” on top of the four month acceleration of the deadline for 25”- 36” television receivers adopted by the Commission in its June 9, 2005 Report and Order would tax manufacturers’ capabilities to the breaking point and entail unacceptable risk to quality and reliability, unnecessarily cause sharp price increases, and result in reduced or no availability to consumers of such products.

¹ *Requirements for Digital Television Receiving Capability*, Report and Order and Notice of Proposed Rulemaking, ET Docket No. 05-24 (FCC 05-121, released June 9, 2005) (*Further Notice*).

Philips' design and manufacturing plans are based on the phased succession of DTV tuner mandate deadlines that the Commission established three years ago, concluding with the mid-2007 deadline for 13" – 24" screen sizes and peripheral television products. It is simply not feasible at this late date to revamp dramatically these plans yet again. Nor is it practical to change the July 1, 2007 deadline for peripheral equipment such as tuner-equipped VCRs, DVD players, and set-top boxes.

Nevertheless, recognizing the pressure to accelerate the DTV conversion, Philips believes that acceleration of the deadline for 13"- 24" television sets from July 1, 2007 to March 1, 2007 is possible without creating inordinate disruption in the marketplace but only if the Commission were to adopt this accelerated deadline in September or October of this year so that there is sufficient advance notice to all manufacturers and retailers. Doing so would provide close to the minimum 18 months needed for an acceptable manufacturing cycle for 13"- 24" television receivers.

Moreover, it would be reasonable and it would serve the transition to bring within the digital mandate all television sets intended to receive over-the-air broadcasts, not just those 13 inches and larger. This would ensure that products primarily intended for broadcast reception will have integrated digital reception capability long before analog broadcasts are likely to cease in 2009.

Philips, however, does not support any changes to the current July 1, 2007 date for digital television products other than television sets.

II. STATEMENT OF INTEREST

Philips manufactures and distributes a wide variety of world-class consumer electronics products that use digital technologies, including digital television receivers and associated equipment. Philips was a founding member of the Grand Alliance that pioneered the ATSC over-the-air DTV broadcast standard and continues to be a leader in the development and implementation of terrestrial digital television here and abroad. Philips employs more than 18,000 people in the United States. Not only does Philips work with retailers nationwide to offer consumers the latest in digital television features and technology, but Philips also promotes the development and introduction of digital innovations and educates the retailers who sell our digital products to consumers. Our interest in this proceeding is to ensure that products with digital broadcast reception capability replace those with only analog capability in a rapid and orderly fashion that avoids, to the extent possible, dislocations and disruptions in the highly competitive consumer marketplace.

III. A DEADLINE EARLIER THAN MARCH 1, 2007 WOULD BE IMPOSSIBLE TO MEET IN ANY COMMERCIALY REASONABLE MANNER.

In August, 2002, the Commission established a relatively rapid period of slightly less than five years in which it required manufacturers to redesign or retrofit their entire lines of 13-inch and larger television sets and associated receiving equipment so that the sets would receive digital broadcast signals. Changing the last of the mandate deadlines at this late date would create unacceptable risks to product quality, entail substantial extra cost and threaten disruptions in the marketplace with the potential to impede rather than accelerate the transition.

The resources necessary to redesign, test, and manufacture sets with digital reception capability already are over-taxed working to meet the existing 2005 and 2006 deadlines.

Anything faster than an acceleration of 4 months to March 1, 2007 from the current July 1, 2007 deadline for 13”- 24” receivers is impossible to accomplish in any reasonable manner.

A. The Proposed Acceleration to a Date No later than December 31, 2006 Would Contravene The Repeatedly Recognized 18-24 Month Manufacturing Cycle.

In its *Report and Order* in this proceeding, the Commission correctly concluded that: “It makes little sense to require products to be on the market before the general population of manufacturers can deliver them.... [I]f manufacturers were not able to meet our deadline, they might cease production of . . . sets or switch to monitor products that do not include TV tuners.”² Yet, violation of the Commission’s wise injunction is precisely the result that would follow from the Commission’s proposed acceleration of the final DTV tuner mandate deadline by at least 6 months.

A minimum of 18-24 months is required between design of television products and retail availability. Each new product must undergo the following process:

- features must be specified;
- performance specifications for each function must be established;
- engineering design for all features must be determined and drawn up;
- chassis must be developed;
- parts must be secured;
- prototypes must be constructed; and

² *Id.* at ¶ 20.

- tests must be performed on the prototype(s) to ensure that specifications are met and reliability acquired.

The process described above requires a minimum of 9 months, and more if design difficulties occur. Once the prototypes reach the later stages, the product is first presented in meetings with retailers. There ensues a period of an additional six months during which product design is refined, further integration, and testing occurs, and formal product sales presentations are made to retailers, followed by further sales meetings. Only then do major retailers make their placement decisions, paving the way for production quantity manufacturing to commence. At that point the manufacturer proceeds to order the parts and subassemblies necessary to construct the sets on order. After production models pass testing, shipments begin to the retailers, generally within 4-6 months of retailer placement decisions.

These successive steps take a minimum of 18-24 months to complete. The Commission and Congress repeatedly have recognized this cycle when adopting television technology mandates, including for closed captioning, V-chip blocking, content protection, and the original digital TV reception requirements.³ This time period is absolutely necessary to make changes to television sets, and departing from that process now could only negatively affect the provision of

³ See *Television Decoder Circuitry Act of 1990*, P.L. 101-431 at § 3, 104 Stat. 960; *Closed Captioning Requirements for Digital Television Receivers, Closed Captioning and Video Description of Video Programming, Implementation of Section 305 of the Telecommunications Act of 1996, Video Programming Accessibility*, Report and Order, 15 FCC Rcd 16788 at ¶¶ 54-58 (2000); *Technical Requirements to Enable Blocking of Video Programming Based on Program Ratings, Implementation of Sections 551(c), (d), and (e) of the Telecommunications Act of 1996*, Report and Order, 13 FCC Rcd 11248 at ¶¶ 21-24 (1998); *Second Period Review of the Commission's Rules and Policies Affecting the Conversion to Digital Television*, Report and Order, 19 FCC Rcd 18279 at ¶ 159 (2004); *Review of the Commission's Rules and Policies Affecting the Conversion To Digital Television*, Report and Order and Second Memorandum Opinion and Order, 17 FCC Rcd 15978 (2002) at ¶ 41; *Digital Broadcast Content Protection*, Report and Order and Further Notice of Proposed Rulemaking, MB Docket No. 02-230, 18 FCC Rcd 23550 (2003) at ¶ 57, *vacated sub nom. American Library Association, et al. v. FCC*, No. 04-1037 (D.C. Cir. May 6, 2005).

reliable digital receivers at the very critical moment that consumers must have a good experience if the transition is to succeed.

A new deadline no later than December 31, 2006 for integration of digital reception capability in television receivers of 13"- 24" in screen size would compress the time permitted for compliance to no more than 15 months, assuming Commission adoption of a further order in this proceeding in September, 2005. Especially in light of the need to design an entirely new chassis for these smaller size sets, that time period is just too short.

B. Last Minute Changes in the Deadlines that Manufacturers Have Relied Upon Would Disastrously Disrupt and Dramatically Increase the Cost of Production.

Accelerating the deadline any earlier than March 1, 2007 is not feasible from a resources allocation perspective either. With each deadline change, manufacturers must revisit personnel assignments and manufacturing capacity plans already made and being followed to meet the existing deadlines. If available, employees must be removed from some other project and redeployed; or new employees with the requisite skills must be found and hired, costs analyzed, and innumerable decisions made up-and-down the engineering, manufacturing and management chains in order to try to align the process with any new deadlines. In addition, parts suppliers also would have to alter their production schedules.

Managing the resources necessary to design and manufacture television sets is complex. Constantly changing the goal posts inevitably adds significant cost when the entire planning process must be substantially changed to meet new dates. In the case of digital television sets, changing the deadlines at this late date would harm, not benefit the transition. Nor is there a compelling reason to do so.

C. A Likely Change in the DTV Transition Deadline to Establish a 2009 “Hard Date” for Cessation of Analog Broadcast Transmission Has Eroded the Commission’s Rationale for Accelerating the DTV Tuner Mandate

In its FNPRM, the Commission expressly tied the proposed acceleration of the DTV tuner mandate for television receivers with screen sizes of 13”- 24” to “a date not later than the statutory target date for the end of the transition.”⁴ However, congressional action likely to occur this fall almost certainly will extend the statutory deadline for ending the DTV transition by 2-3 years. Legislation introduced and other proposals pending before Congress would establish a “hard” DTV transition completion date in 2009,⁵ two or more years later than the December 31, 2006 “goal” than exists in current law.⁶ This hard deadline would replace the “soft” deadline under current law that is based on a market-by-market penetration test.

The strong likelihood that a 2009 hard deadline will be enacted this year, coupled with the universally held view that the December 31, 2006 current statutory target will not be met under any circumstances renders untenable the Commission’s reliance on the December 31, 2006 date as the basis for its proposed acceleration of the DTV tuner mandate.

Retention of a July 1, 2007 deadline for 13”- 24” television receivers would still provide consumers with anywhere from 18 to 30 months prior to cessation of analog broadcasting in which to choose from an array of television sets, all of which would have digital reception

⁴ *Id.* at ¶ 21.

⁵ See S. 1268, 109th Cong., 1st Sess. (2005) introduced by former Senate Commerce Committee Chairman John McCain (R-Arizona) and Senator Joseph Lieberman (D-Connecticut) that would establish a “hard” deadline of January 1, 2009. Similarly, draft legislation dated May 20, 2005 released by the House Energy and Commerce Committee staff would require cessation of all analog broadcasts on December 31, 2008.

⁶ See 47 U.S.C. § 309(j)(14).

capability. Retention of the current DTV tuner deadline would be pro-consumer because it would permit normal quality assurance processes to be followed and permit product prices to drop.

D. A Last-Minute Change Establishing an Unreasonable Deadline Would Disrupt the Competitive Supply of High Quality Television Sets in the Marketplace.

Television sets are extremely reliable and reasonably priced. Many sets remain in service two and three decades after delivery. In addition to sturdy initial designs, the consistent use of reliable parts and care with assembly have yielded these good results. Good design and consistent quality, coupled with high volumes, also have allowed manufacturers to lower prices. As incredible as it may seem, today's 60-inch high definition set costs no more in constant dollars than the 19-inch color set of the early 1970's or the small black-and-white set of the 1950's.

The marketplace forces that have brought high quality television receivers to within reach of almost every consumer rely upon multiple competitors providing excellent products. It is imperative to the success of the DTV transition that as analog broadcasts cease, reasonably-priced digital sets are readily available in a full array of sizes and features. Moving the digital tuner deadline unreasonably close at the last minute would threaten to disrupt marketplace dynamics and drive up the price of digital sets.

E. Accelerating the July 1 Date Four Months, to March 1, Is Possible.

Notwithstanding the benefits of retaining the July 1, 2007 date for all television receivers to include a digital tuner and the absence of significant countervailing harm in doing so, Philips is cognizant of and respects the wishes of the Congress and the Commission to conclude the

DTV transition as quickly as feasible. Consequently, Philips undertook a review of its transition plans to determine whether any aspects could be accelerated without a likelihood of serious detrimental disruption.

Philips has determined that with extra effort it would be possible to meet a March 1, 2007 deadline if the change were adopted early this fall. But any more rapid acceleration would create a host of problems posing unacceptable quality and price risk for consumers. Compromises in quality and reliability and sharper than necessary price increases dictated by government intervention into the manufacturing process and cycle are the very last things the DTV transition needs. Accordingly, if the Commission is determined to compel some acceleration of the current July 1, 2007 deadline, Philips suggests that a March 1, 2007 date be adopted.

IV. PHILIPS SUPPORTS APPLYING THE DTV TUNER MANDATE TO ALL RECEIVERS, INCLUDING THOSE SMALLER THAN 13 INCHES

In its *Further Notice*, the Commission requests comment on whether the DTV Tuner mandate should be extended to all broadcast reception devices, including those smaller than 13-inches.⁷ Assuming that analog broadcasts will completely cease, it is reasonable to extend the mandate to all television sets regardless of size.

We do note the need to be clear that the mandate relates to devices intended primarily to receive broadcasts, not other types of over-the-air video reception devices. Such care is necessary because in the foreseeable future devices are likely to be available for receiving broadcast-like video over-the-air, such as over cellphones and PDAs. These types of services,

⁷ *Further Notice*, *supra* note 1 at ¶ 22.

whether or not available only to subscribers, are not within the intended set of devices subject to the digital mandate and must remain excluded from its provisions.

V. THE DEADLINE FOR PRODUCTS RELATED TO DIGITAL RECEPTION, SUCH AS VCRs AND SET-TOP BOXES, SHOULD NOT BE CHANGED.

While Philips can accommodate a four-month acceleration for 13” – 24” television sets, from July 1 to March 1, 2007, it would be unduly burdensome to move up the date for the other reception-related equipment that also is subject to the July 1 deadline. Each company has only so many resources. Philips and other similar-situated manufacturers have had to allocate personnel and resources carefully in order to meet the existing July 1 deadline. In part because everything could not be addressed at the same time, we gave priority to the television sets themselves and are on a schedule that can accommodate an earlier March 1, 2007 deadline. The same is not true with the associated equipment that also is subject to the July 1, 2007 deadline, however. With so many products to address, the resource burden is simply too great.

It is too late in the process to reallocate the resources necessary to meet an earlier deadline on other products. Moreover, there is no public policy reason that would justify accelerating the deadline applicable to ancillary products to more than the 18-30 months before the expected end to analog broadcasting in 2009.

VI. CONCLUSION

Although the more prudent course from both a manufacturer and consumer perspective would be to leave unchanged the current DTV tuner mandate for 13”- 24” television receivers, Philips recognizes that there are countervailing pressures to accelerate. Accordingly, after careful review of its product plans and manufacturing cycle, Philips is prepared to support an

acceleration of the DTV tuner mandate for all television sets regardless of screen size to March 1, 2007, if the Commission were to act no later than in September or October, 2005.

However, Philips opposes any acceleration of the current July 1, 2007 deadline for integration of digital reception capability into ancillary digital television products such as VCRs. Acceleration of that deadline would require a diversion of effort needed for the successful conclusion of the DTV transition.

Respectfully submitted,

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